

Message Text

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PAGE 01 COLOMB 02960 281232Z
ACTION AID-31

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E.O. 11652: N/A
TAGS: EAID, EAGR, CE

SUBJ: PRIMA FLOUR MILL

REF: A. STATE 127289, B. COLOMBO A-64, JULY 5, 1978

1. FOLLOWING IS THE SUMMARY OF AN AIRGRAM (REF B) TO BE TRANSMITTED TO THE DEPARTMENT AND INFO POSTS BY THE NEXT CLASSIFIED POUCH:

QUOTE: ONE OF THE LARGEST WHEAT FLOUR MILLS IN THE WORLD IS NOW UNDER CONSTRUCTION AT TRINCOMALEE BY A CONSORTIUM OF THREE FOREIGN COMPANIES HEADED BY PRIMA LIMITED OF SINGAPORE. UNDER AN AGREEMENT WITH THE GOVERNMENT OF SRI LANKA (GSL), PRIMA WILL BUILD THE \$30 MILLION MILLING COMPLEX, WHICH IS EXPECTED TO BEGIN PRODUCTION IN JANUARY 1980, AND WILL PROVIDE FREE MILLING SERVICES FOR 20 YEARS IN RETURN FOR THE BRAN. THE GSL PROVIDED THE LAND FOR THE MILL AND GUARANTEES TO SUPPLY AT LEAST 400,000 METRIC TONS OF GRAIN PER YEAR. BENEFITS TO SRI LANKA INCLUDE A \$24 FOREIGN EXCHANGE SAVING PER TON OF FLOUR MILLED IN COUNTRY RATHER THAN IMPORTED (FOR TOTAL ANNUAL SAVINGS OF BETWEEN \$7.1 MILLION AND \$12.7 MILLION DEPENDING ON THE LEVEL OF OUTPUT), EMPLOYMENT FOR 700 PEOPLE,
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A MORE RELIABLE SUPPLY OF FLOUR, AND OWNERSHIP OF THE MILL AFTER 20 YEARS. PRIMA'S PROFIT MARGINS WILL DEPEND ON THE WORLD PRICE OF BRAN OVER THE 20-YEAR PERIOD. ON THE BASIS OF CURRENT BRAN PRICES AND VERY ROUGH ESTIMATES OF PRODUCTION COSTS, PRIMA STANDS TO MAKE GOOD BUT NOT EXHORBITANT PROFITS. AT THE PRESENT, HEAVILY SUBSIDIZED DOMESTIC PRICE OF FLOUR, THE CURRENT HIGH LEVEL OF CONSUMPTION COULD EASILY BE MET BY

A COMBINATION OF PRIMA, THE EXISTING COLOMBO MILL, AND GRANT IMPORTS. IF THE GSL RAISES THE PRICE OF FLOUR TO ELIMINATE THE SUBSIDY, CONSUMPTION IS EXPECTED TO FALL BELOW PRIMA'S GUARANTEED MINIMUM PRODUCTION LEVEL IF THE COLOMBO MILL AND GRANT IMPORTS CONTINUE TO SUPPLY FLOUR AT PRESENT LEVELS. IN THIS EVENT, THE COLOMBO MILL MAY BE CONVERTED TO PRODUCE RICE FLOUR WHICH WOULD BOOST PRIMA'S OUTPUT ABOVE THE MINIMUM. NO FLOUR EXPORTS ARE PLANNED. LEFTIST CRITICISM OF THE AGREEMENT WITH PRIMA, MADE EXAGGERATED ESTIMATES OF PRIMA'S PROFITS BUT ALSO RAISED LEGITIMATE QUESTIONS ABOUT THE DISINCENTIVE EFFECTS OF HIGH FLOUR CONSUMPTION ON DOMESTIC GRAIN PRODUCTION AND THE ECONOMICS OF SUCH A LARGE MILL IN A SPARSELY POPULATED AREA OF THE COUNTRY. WHILE THE GSL MAY NOT HAVE MADE THE MOST ADVANTAGEOUS ARRANGEMENT FOR ADDITIONAL MILLING CAPACITY, THE EMBASSY BELIEVES SRI LANKA IS BETTER OFF WITH THE PRIMA MILL THAN IT WOULD BE IF THE GSL CONTINUED TO IMPORT THE BULK OF ITS FLOUR NEEDS. UNQUOTE.
LEVIN

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